Sackers extra

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Abbreviations commonly used in 7 Days

Alert/News: Sackers Extra publications (available from the client area of our website or from your usual contact)
DB: Defined benefit
DC: Defined contribution
DWP: Department for Work and Pensions
ECJ: European Court of Justice
FAS: Financial Assistance Scheme
GMP: Guaranteed Minimum Pension
HMRC: HM Revenue & Customs
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

LEGISLATION

The Equality Act 2010 (Amendment) Regulations 2012

These regulations, which come into force on 21 December 2012, amend the Equality Act 2010 to reflect a change to European law brought about by the *Test Achats* ruling on 1 March 2011.[1]

The ECJ ruled that, with effect from 21 December 2012, the use of sex as a risk factor should not result in differences in individual's insurance premiums and benefits. The exemption that is contained in the relevant European Directive,[2] (often called the "Gender Directive"), to allow such practices will cease to be valid from that date. These regulations will reflect this change to EU law by removing the corresponding exemption from the Equality Act 2010 (paragraph 22 to Schedule 3).

Explanatory memorandum

DEPARTMENT FOR WORK AND PENSIONS

State Pension to be highest share of earnings in 20 years

On 6 December 2012, Ministers confirmed that the Government would stand by its commitment to protect pensioner incomes. The "triple lock", a key coalition agreement, will be used for the first time to increase the basic state pension next year at an above inflation rate of 2.5% to £110.15 a week.

HM TREASURY

Autumn Statement 2012

On 5 December 2012, the Chancellor of the Exchequer, George Osborne, delivered his Autumn Statement. The Statement provides an update on the Government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility.

While the Government takes comfort from the latest economic and fiscal outlook, believing that it is "on course" to meet its target of balancing the budget over a five year period, pensions tax relief is once again a target for raising revenues. In a bid to ensure that "those who earn the most contribute their fair share", for the tax year 2014/15 onwards:

- the annual allowance for tax relief on pension savings will be reduced from £50,000 to £40,000;

[1] Please see our Alert: "Is it the end of the road for sex-based actuarial factors?" dated 2 March 2011

[2] Directive 2004/113/EC

- the standard lifetime allowance ("LTA") will be reduced from £1.5 million to £1.25 million; and
- a transitional "fixed protection" regime will be introduced for those affected by the reduction in the LTA.

The Government is also proposing two measures to help ease DB scheme funding. TPR's response can be found in the TPR section below.

For details please see our Alert: "Autumn Statement 2012" dated 6 December 2012.

PENSION PROTECTION FUND

Final Go-Ahead to GMP Treatment

Following a successful pilot project, on 5 December 2012 the PPF announced that its method of calculating compensation for men and women to ensure they are treated equally will apply to all pension schemes in its assessment period.

In 2008, the PPF confirmed that it has to take account of GMPs to ensure the equal treatment of men and woman, as required by law. Men and woman can receive different levels of compensation because of differences in the calculation of GMPs, primarily brought about by different retirement ages.

The PPF will tell schemes which are scheduled to transfer to the PPF before 31 May 2013 that they will not have to do GMP calculations, in line with the PPF methodology. Instead, the PPF will do these calculations and adjust compensation payments accordingly. But, for all schemes where transfer is not expected until after 1 June 2013, GMP calculations using the PPF methodology will be completed before transfer.

The PPF will be writing to the trustees of all schemes in assessment shortly to explain how these changes will affect them.

NATIONAL ASSOCIATION OF PENSION FUNDS (NAPF)

Engagement survey published

The NAPF Annual Engagement Survey, which was launched at the NAPF Annual Trustee Conference on 4 December 2012, showed that seven out of ten respondents (71%) had taken the stewardship activities and policies of asset managers into account when selecting them. This was a significant jump from 48% in 2011. In addition, an overwhelming majority (90%) said they had reviewed their asset managers' application of the stewardship policy.

The survey also revealed that pension funds exercised their votes more often and in an increasing number of jurisdictions, with 93% of them having cast their votes this year.

The Stewardship Code was launched by the Financial Reporting Council in 2010 to improve engagement between institutional investors and companies. It has already been signed up to by 57 asset owners, including many of the UK's larger pension funds, and 189 asset managers.

Press release

THE PENSIONS REGULATOR

Enabling automatic enrolment into high-quality DC schemes

In a speech to the NAPF trustee conference on 4 December 2012, Michael O'Higgins, chair of TPR, set out how TPR will encourage automatic enrolment into high-quality pension products and steer employers away from poor value schemes. He also explained what to expect when TPR consults in more detail on its regulatory approach to DC schemes.

TPR's approach to encouraging auto-enrolment of workers into good schemes includes:

- support for the pensions industry to deliver high-quality, value for money schemes. TPR has published six principles for the design and governance of good workplace DC schemes, underpinned by a number of quality features. TPR believes that adherence to the principles will increase the likelihood of good outcomes for retirement savers; and

- support for employers through TPR's automatic enrolment communications to be better informed purchasers of pension products, increasing the likelihood that they will select a quality scheme for their workers. TPR's website, letters and electronic communications to employers signpost to TPR's "Selecting a good automatic enrolment scheme" guide, which sets out 10 questions which employers can put to providers to help them with their selection, or review the suitability of their existing scheme.

Full speech

Response to the Government's DB announcement

On 5 December 2012, TPR published a statement in response to the Government's announcement (in the Autumn Statement, see above), that it will consult on:

- whether to introduce smoothing when calculating DB pension scheme's assets and liabilities; and

- whether to adopt a new objective for TPR that would provide an explicit statutory requirement to take account of affordability issues.

TPR understands that the Government intends to undertake a consultation exercise in the New Year, with any changes potentially affecting 2013 valuations. Until then it will continue to regulate according to the legislative framework as set by Government and Parliament.

TPR advised that, until it is clear whether the regime will be altered in any way, trustees and sponsors should continue to develop their plans as set out in TPR's statement "Pension scheme funding in the current environment" (published in April 2012), and other related guidance, and in line with the statutory timetable.